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COUNTRY Germany (Russian Zone)

SUBJECT Financial Difficulties between the Central
Finance Administration and the Länder

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1. State and Kreis government agencies in the Soviet Zone of Germany are in financial difficulties which are primarily a result of government measures, and not a decline in tax receipts. One such measure concerns the transfer of tax revenues to the Central Finance Administration. These payments must be made by the twentieth of each month, a necessity which has given rise to protests on the part of the state Finance Ministers who have pointed out that the greater part of all income and corporation taxes is paid only after the twentieth of each month. Another contributing factor is the fact that the liquid assets of state and Kreis government agencies have recently been requisitioned or blocked, and that these agencies are now unable to honor their commitments, especially since they are not permitted to borrow money.
2. Socialized plants, in so far as they have outstanding credits, are experiencing the same difficulties. The gravity of their situation has been aggravated by the fact that all subsidies have been cancelled. As a result of this measure, the DWK has been, and is still, trying to untangle the confused situation of these plants.
3. The cancellation of all subsidies necessitates a basic modification of the price policy pursued in the past. There are indications that prices will correspond in the future to the actual cost price. Heinrich Rau, Chairman of the DWK, seems to have had this in mind when he mentioned recently that the opening of the "Freie Läden" (stores selling unrationed surplus goods) would lead to a modified price policy involving all goods and business transactions.
4. The Central Finance Administration hopes that a net profit of two billion (sic) Ostmarks a year will result from sales in the "Freie Läden". The program of the Two-Year Plan is based on the investment of this sum for the purchase of raw materials and consumers' goods. Experts, however, are doubtful that it will be possible to obtain enough goods for such large-scale transactions which represent a value of at least 200 million Ostmarks. They are of the opinion that the purchasing power of the population has been greatly overestimated, especially in view of the new financial directives which are intended to curb the surplus purchasing power.

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Comment: The above figures appear to foresee a profit of almost one thousand percent.)

5. The Central Finance Administration is confident that it will be possible to secure important amounts of cash through the new Investitionsbank (Investment Bank). Saving banks, insurance companies, and similar institutions will be asked to invest some of their money in shares of this bank; it is likewise expected that taxpayers with earnings above a certain level will have to subscribe for shares in the Investitionsbank.

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